



MIAMI BEACH

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065-2015

LETTER TO COMMISSION

TO: Mayor Phillip Levine and Members of the City Commission

FROM: Jimmy L. Morales, City Manager

DATE: February 10, 2015

SUBJECT: Forensic Audit Report of Miami Beach Community Development Projects:
Allen Apartments and Neptune Apartments

The purpose of this Letter To Commission is to transmit the forensic audit report by Grant Thornton, LLP of the City's funding of the Allen Apartments and Neptune Apartments, properties owned by Miami Beach Community Development Corporation (MBCDC).

The City contracted with Grant Thornton, LLP to review these two projects in light of the problems that were unearthed in May 2013 after the City terminated Anna Parekh, the former Department Director of the City's Office of Real Estate, Housing and Community Development. These specific projects were selected for audit as they represented the first and last affordable housing projects developed by MBCDC under Ms. Parekh's monitoring.

It should be noted that, once Ms. Parekh was terminated, the City suspended MBCDC's Community Housing Development Organization (CHDO) status, halted all advance payments, and began the process of recapturing awarded funds. The City also requested that MBCDC provide missing documentation and account for expended funds while also contacting MBCDC's additional funders to advise them of the issues uncovered.

The Grant Thornton, LLP report delineates significant deficiencies with MBCDC including its failure to: comply with budget estimates records retention, obtain appropriate City approval for change orders; receive advance payments that could not be subsequently substantiated as legitimate expenses; and its use of a wholly-owned subsidiary to serve as general contractor for projects in which it was also the developer.

While the report provides detail to these deficiencies, MBCDC has undergone significant changes in its efforts to address these deficiencies including the following changes in its executive management team:

- Beatriz Cuenca-Barberio replaced Roberto Datorre as Executive Director
- Donna Gunther replaced Karl Kennedy as Deputy Director
- Leticia Valle replaced Jaime Gomez as Controller

In addition, the new management team oversaw an almost full staff turnover in all positions except for two clerical staff members and the five-person maintenance division. In addition to staff changes, MBCDC appointed Cornell Crews, Jr. as board chair replacing Jack Johnson.

Since Ms. Cuenca-Barberio's appointment in August 2014 and given the concerns identified, MBCDC agreed to return several properties to the City in its effort to safeguard the agency's overall affordable housing portfolio and the stability of its vulnerable tenants residing within these properties. These properties include the Lottie Apartments and Madeleine Village Apartments which the City acquired on January 11th; the Neptune Apartments (acquired on January 30th); and the Barclay Apartments (also acquired January 30th). The Allen Apartments has a mortgage held by Florida Housing Finance Corporation and a surtax loan mortgage by Miami-Dade County which have yet to be assigned to the City delaying this closing. The City is working with both entities to resolve pending issues so as to finalize the final pending property acquisition.

Ms. Cuenca-Barberio, a graduate of the University of Miami School of Law, previously served as Program Director for Miami-Dade County's Section 8 Program. In her short tenure, she has overseen an overhaul of MBCDC's tenant procedures, internal fiscal controls, HUD compliance processes and personnel processes. She has overseen the clearance of several prior audit findings and significantly reduced staffing to contain expenditures. A summary of MBCDC's FY 15 operation's plan is attached herein.

If you have any additional questions, please feel free to see me.

JLM/KGB/MLR

Enclosure: Grant Thornton, LLC Audit Report of MBCDC Properties

**THE STATE OF FLORIDA
DEPARTMENT OF
MANAGEMENT SERVICES**

**FINANCIAL AND PERFORMANCE
AUDITS**

**FLORIDA MASTER TERM
CONTRACT NO. 973-000-14-02**

CITY OF MIAMI BEACH:

**PHASE I –A & B- FUNDING
PROGRAM ASSESSMENT**

January 27, 2015

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January 27, 2014

City of Miami Beach
ATTN: Mr. Jimmy Morales, City Manager
1700 Convention Center Drive
Miami Beach, Florida 33139

Subject: Phase I-A & Phase I-B – Funding Program Assessment Deliverable

Dear Mr. Morales,

Pursuant to the engagement letter dated April 29, 2014 (“Engagement Letter”), Grant Thornton LLP (“we” or “us” or “GT”) was engaged by City of Miami Beach (“COMB”) to perform certain accounting consultation services and provide reports and other deliverables defined in attachment B of the Engagement Letter (“SOW” or “Services”). As requested, we have only performed the procedures set out in the terms of the Engagement Letter and SOW for this engagement. The scope of these procedures has been determined solely by COMB management. The specific procedures performed and findings to date are described below.

Section 1: Executive Summary

1.1 Scope of Work

At your request, Grant Thornton LLP was engaged on April 29, 2014 to assist the City of Miami Beach (“COMB” or “you”), with conducting a funding program assessment of the Miami Beach Community Development Corporation (“MBCDC”) and sub-contractors for the Allen and Neptune properties. Our work consisted of procedures related to the administration of United States (U.S.) Department of Housing and

Urban Development (“HUD”) grant funds (“HOME”¹, “CDBG”², and “NSP1”³, “NSP3”⁴). Our core Grant Thornton LLP team was comprised of the following individuals:

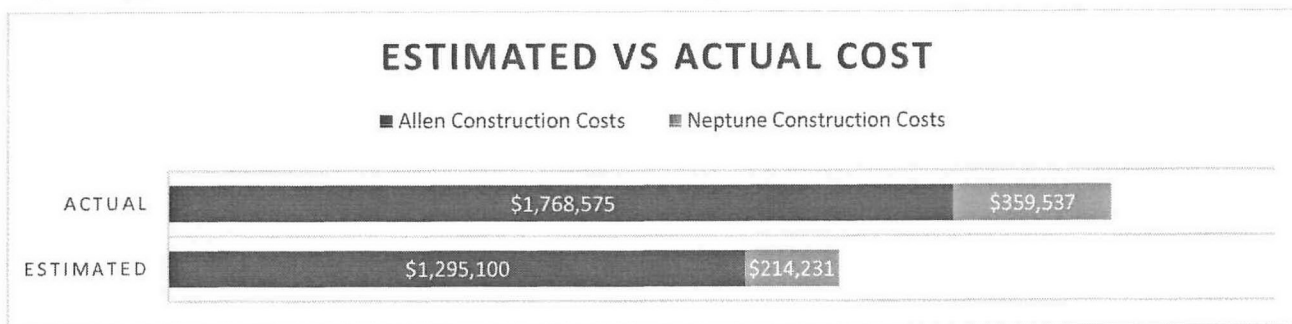
- Partner, Bill Olsen
- Partner, Jack Reagan
- Senior Manager, Jason Leecost
- Senior Manager, Steven Solomon
- Senior Associate, Jawad Afzal
- Senior Associate, Zachary Mall

Certain procedures were performed on location at the Housing and Community Services office in Miami Beach, Florida. Additional procedures were performed at Grant Thornton LLP offices.

As agreed with COMB management (Jimmy Morales, City Manager and Maria L. Ruiz, Department Director), we conducted procedures related to MBCDC administration and operations of the federal grant funds for the Neptune and Allen properties through analysis of financial and procurement documentation and contracts. We analyzed transactions to identify documentation or patterns indicative of improprieties (*i.e.*, transactions that are suspicious, unusual or potentially improper). Specific procedures and selected transactions are highlighted in section 1.5 below. Furthermore, the following sections describe a summary of observations, procedures performed, and observations and recommendations based on the work performed.

1.2 Summary of Observations

The objective of our procedures was to examine federal program expenditures and funding for the Allen and Neptune development projects. For Phase I-A&B, we had fifteen (15) observations “Observations”). Construction costs for Allen and Neptune exceeded estimates by over \$600,000 in total (37% and 68%, respectively), as shown in the below chart, and detailed in this report.



¹ The HOME Investment Partnerships Program (“HOME”) provides formula grants to States and localities that communities use - often in partnership with local nonprofit groups - to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people.

² The Community Development Block Grant (“CDBG”) program is a flexible program that provides communities with resources to address a wide range of unique community development needs. Beginning in 1974, the CDBG program is one of the longest continuously run programs at HUD. The CDBG program provides annual grants on a formula basis to 1,209 local governments and States.

³ NSP1, a term that references the NSP funds authorized under the American Recovery and Reinvestment Act (the Recovery Act) of 2009, provides grants to states, local governments, nonprofits and a consortium of nonprofit entities on a competitive basis. The Recovery Act also authorized HUD to establish NSP-TA, a \$50 million allocation made available to national and local technical assistance providers to support NSP grantees.

⁴ NSP3, a term that references the NSP funds authorized under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) of 2010, provides a third round of neighborhood stabilization grants to all states and select governments on a formula basis.

The summary of the Observations across the ten tasks are as follows (a complete summary is located in Appendix A):

1. There was no documentation supporting how winning bidders were selected for both the Allen and the Neptune contracts (*e.g.*, scorecard). **(Task 1: Subcontractor Assessment)**
2. There was no documentation providing evidence that Neptune's pre-bid conference information was advertised in a local newspaper, or if such a conference was ever held. **(Task 1: Subcontractor Assessment)**
3. 14 out of 34 line items in the Allen construction estimate exceeded the estimated amount by 10%. We also noted that the final costs were \$473,475 (36%) higher than initially estimated. **(Task 2: Architectural Line Items / Task 4: Change Orders)**
4. 32 out of 40 line items in the Neptune construction estimate were under- or over-estimated 10% compared to final costs. We also noted that the final costs were 68% (\$145,306) higher than initially estimated. **(Task 2: Architectural Line Items / Task 4: Change Orders)**
5. MBCDC contracted with Miami Beach Community Contractors ("MBCC"), a subsidiary of the MBCDC, for work on the Neptune building. **(Task 3: Reimbursement Request/Program Funding)**
6. The payroll records reflect that certain employee rates for the same type of work by the same employee changed multiple times for the work performed on the Allen and Neptune projects. **(Task 7: Payroll)**
7. The McGladrey audit report (City of Miami Beach, Florida, Single Audit Reports in Accordance With OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General of the State of Florida, September 30, 2011) stated that monthly reports were not prepared or submitted in a timely manner by the sub-recipients to COMB as required by the sub-recipient agreements. In addition, one sub-recipient had provided no evidence of monitoring visits in its files. **(Task 9: Review Audit Documentation and Findings)**
8. The Allen and Neptune projects had no supporting documentation for 66 cancelled checks. **(Task 3: Reimbursement Request/Program Funding)**
9. No evidence was provided that sub-recipient's change orders were communicated to COMB prior to approval. In addition, 5 approved change orders for the Allen project are missing supporting documentation. **(Task 4: Change Orders)**
10. There was no documentation supporting the purpose of the contingency amounts, how they were calculated, or how they were used. The contingency amount for the Allen project was estimated and paid at \$40,000 and the Neptune project did not budget for a contingency. **(Task 5: Contingency Account)**
11. There are 4 support program expenditure receipts kept by MBCDC that appear to be different from typical receipts. These receipts are missing the COMB's letterhead and/or invoice numbers. **(Task 6: Program Examination)**
12. We analyzed the certified payroll records for the Allen project and analyzed 616 payroll records totaling \$113,283.89. Supporting documentation for cancelled checks totaled \$49,567. However, we found no supporting documentation for the remaining \$63,716. **(Task 7: Payroll)**⁵
13. We analyzed the certified payroll record for the Neptune project and analyzed 405 payroll records totaling \$60,202. We analyzed supporting documentation for cancelled checks totaling \$2,594; however, we found no supporting documentation for the remaining \$57,608. **(Task 7: Payroll)**
14. There were no meeting minutes provided that would indicate official meetings occurred between the general contractor, MBCDC, and sub-contractors. **(Task 8: Meeting Minutes)**

⁵ McGladrey Single Audit Reports in Accordance with OMB Circular A-133, dated September 30, 2013 denoted several deficiencies related to lack of payroll records and documentation. Specifically one finding stated the following: "We (McGladrey) noted that for twenty-seven out of thirty-seven payroll expenditures tested, we were not provided any personnel activity reports delineating the hours work by employees on each grant or certification for those employees that work solely on one grant".

15. We found no supporting documentation that indicated MBCDC leased or purchased any major equipment. (Task 10: Equipment Lease)

1.3 Procedures Performed

Grant Thornton LLP proposed a work plan⁶ focused on Phase I-A&B. Phase I-A procedures consisted of developing an understanding of federal program expenditures and funding for the MBCDC Allen development project. Phase I-B procedures consisted of developing an understanding of federal program expenditures and funding for the MBCDC Neptune development project. We performed procedures for each project described below.

1.3.1 Task 1 – Subcontractor Qualification Assessment

Grant Thornton LLP reviewed 51 proposals for the Allen project and 17 proposals for the Neptune project along with MBCDC's proposal evaluation criteria. We documented the key terms explained in the proposal evaluation criteria and used that as a basis from which to determine whether the proposals submitted were evaluated as planned. We also analyzed the entities that attended Neptune's pre-bid conference meeting that MBCDC advertised in the Miami Herald newspaper. For each proposal obtained, we analyzed and documented the following items: a) company name, b) president of company, c) price of contract or sub-contract, and d) any pertinent comments. We also analyzed documentation to discover whether the contracting entities may have been related to key personnel at MBCDC. With the exception of MBCC, a direct subsidiary of MBCDC, we found no evidence of sub-contractors being related to MBCDC.

1.3.2 Task 2 – Construction Line Items

Grant Thornton LLP analyzed line item estimates for both the Allen and the Neptune projects and compared those estimates to final costs. We analyzed 34 line items related to the Allen project with an initial cost estimate of \$1,295,100 and actual expenditures of \$1,768,575 (actual costs exceeded estimates by \$473,475, or a 37% increase in cost). We analyzed 40 line items related to the Neptune project with an initial cost estimate of \$214,231 and actual expenditures of \$359,537 (actual costs exceeded estimates by \$145,307, or a 68% increase in cost). We also analyzed change orders related to each of the projects and compared available change orders to the construction estimates and final prices. Please see Appendix B for Allen project line item details and Appendix C for Neptune project line item details.

1.3.3 Task 3 – Analyze Requests for Reimbursement from Funding Program

Grant Thornton LLP analyzed receipts, cancelled checks, and liens filed related to the Allen and Neptune projects. We analyzed 217 cancelled checks for the Allen project totaling \$857,134 and 127 cancelled checks for the Neptune project totaling \$438,198. For each cancelled check, we noted the following information: a) date of cancelled check; b) payee; c) amount; d) payor; e) check number; and f) any pertinent comments helpful to understand the purpose of cancelled checks.

We also analyzed 153 invoices for the Allen project totaling \$525,153 and 65 invoices for the Neptune project totaling \$199,743. For each invoice, we documented: a) the invoice date; b) invoice number; c) invoices amount; and d) brief explanation of the invoice. We noted certain cancelled checks lacked corresponding invoices and vice versa. As a result, we were unable to analyze all relevant supporting documentation for these cancelled checks and invoices.

Of the 16 liens reviewed, 3 were filed on the Allen project totaling \$408,462 and 13 were filed on the Neptune project totaling \$110,022. For each lien, we noted the: a) date of lien; b) property under lien; c) party filing lien; d) amount; and d) brief description of lien. We used this information to analyze the independence

⁶ The Engagement Letter describes the statement work that was agreed upon by the City of Miami and Grant Thornton LLP to perform the Phase I-A&B examination.

of the parties issuing the liens and denote issues regarding the settlement of the liens. Please see Appendix D for a chart detailing the liens.

1.3.4 Task 4 – Change Order Inspection

Grant Thornton LLP requested all change orders for the Neptune and Allen projects and was provided 12 of a potential 47 change orders. MBCDC used change orders when a modification was needed to the original scope of work. We reviewed ten (10) change orders for the Allen project totaling \$473,475 and two for the Neptune project totaling \$70,010. For each change order, we documented the following: a) change order number; b) date; c) change order amount; d) previous amount; e) contractor; and f) brief description.

1.3.5 Task 5 – Contingency Account

Grant Thornton LLP was unable to analyze the contingency accounts because MBCDC did not provide documentation for an analysis. The Allen project had an estimated contingency account of \$40,000, all of which was spent. The Neptune project did not budget a line item for contingency and had no expenditures.

1.3.6 Task 6 – Program Expenditures

Grant Thornton LLP analyzed expenditure reports and invoices submitted to COMB for both the Allen and Neptune projects. We reconciled invoices to cancelled checks and analyzed payroll records and reimbursement requests. We also analyzed documentation related to duplicate invoices.

There were 11 draw requests submitted for the Allen project totaling \$948,306. Support was provided for 9 of 11 draw requests totaling \$913,753. Grant Thornton LLP was unable to review 2 draw requests for the Allen project totaling \$34,553 because complete documentation was not produced to us as requested. There were 28 draw requests for the Neptune project totaling \$5,704,152. The support provided for 8 draw requests totaled \$4,862,508. We were unable to analyze the remaining draw requests because no documentation was produced to us as requested.

1.3.7 Task 7 – Payroll Statements

Grant Thornton LLP analyzed a total of 1,019 payroll records (616 payroll records for the Allen project totaling \$291,863 and 403 payroll records for the Neptune project totaling \$105,313). We documented payments by: a) worker name; b) company; c) work classification; d) hours worked; e) hourly rate; f) deductions; g) net wages per calculation; and h) net wages as recorded. We compared net wages as calculated to net wages as recorded, and we looked for inconsistencies in work classification and hourly pay. We derived the total payroll records for each contractor company and compared the net wages as recorded to the cancelled checks available for review.

1.3.8 Task 8 – Meeting Minutes between General Contractor and Sub-contractors

Grant Thornton LLP did not analyze meeting minutes between general contractor and sub-contractors because no documentation was produced as requested.

1.3.9 Task 9 – Audit Reports

Grant Thornton LLP reviewed COMB's audit reports prepared by McGladrey from fiscal years 2009 - 2013⁷ and documented the following findings related to MBCDC: a) audit year; b) findings; c) criteria; d) condition; e) effect; and f) recommendations. A majority of the reported findings related to the absence of monthly reports (*i.e.*, not being prepared and/or submitted in a timely manner by the sub-recipient to the COMB as required by the agreement), and a lack of evidence related to monitoring visits exists in the sub-recipient files.

1.3.10 Task 10 – Equipment Invoices

Grant Thornton LLP requested documentation regarding equipment invoices from MBCDC; however, we were unable to analyze purchased and leased equipment invoices because no documentation was produced as requested.

Section 2: Details of Control Observations and Recommendations

2.1 Observation Type: Policies and Procedures

Observation #1

Description: Grant Thornton LLP was not provided any documentation supporting how winning bidders were selected for the Allen and Neptune projects (*i.e.*, scorecard).

Background: The lack of evidence does not allow an analysis to determine whether the proposal evaluation criteria described in the applicable RFPs was consistently followed as required. Moreover, we found no documentation indicating that a proposal evaluation committee was established and that the committee performed a review of the solicitation respondents.

Impact: Failure to comply with the evaluation criteria could result in the selection of a contractor not meeting the criteria specified in the RFPs.

Recommendation: MBCDC and COMB should establish an independent committee to develop proposal evaluation criteria and to evaluate responses against such criteria.

Related Tasks: Task 1

Observation #2

Description: Grant Thornton LLP was not provided documentation to analyze whether Neptune's pre-bid conference information was advertised in a local newspaper, or if such a conference was ever held.

⁷ City of Miami Beach, Florida
Single Audit Reports in Accordance With OMB Circular A-133 and
Chapter 10.550, Rules of the Auditor General of the State of Florida
Dated September 30, 2008; September 30, 2009; September 30, 2010; September 30, 2011; September 30, 2012

City of Miami Beach, Florida
Single Audit Reports in Accordance With OMB Circular A-133
Dated September 30, 2012; Year Ended September 30, 2013

Background: An analysis of Neptune’s project documentation was performed and we were unable to locate proposal evaluation documentation (*i.e.*, criteria) that would have resulted from a pre-bid conference. Pre-bid conference and proposal evaluation criteria was provided for the Allen project.

Impact: Failure to comply with, or lack of, evaluation criteria could result in the selection of an unqualified contractor.

Recommendation: MBCDC and COMB should establish a policy (and implement a procedure) making solicitations public and open (e.g. newspaper or public website⁸).

Related Tasks: Task 1

Observation #3

Description: 14 out of 34 items analyzed for the Allen project construction estimate exceeded the estimated amount by 10% or more. Final costs were 36% higher than initially estimated.

Background: Inaccurate pricing and related assumptions provided by contractors indicate the pricing structure documented within the proposal did not cover all costs or costs were underestimated. Sample categories are listed below in Table 1; please see Appendix B for the full list of estimate versus actuals.

Table 1 – Sample Costs by Category for Allen

| Construction Hard Costs | Estimate | Actual | Difference | Percentage Difference |
|--------------------------------|-----------|-----------|------------|-----------------------|
| Ceramic Tile in Bathrooms | \$15,453 | \$20,054 | \$4,601 | 30% |
| Ceramic Tiles for Living Areas | \$16,000 | \$67,469 | \$51,469 | 322% |
| Waste Management | \$8,380 | \$16,478 | \$8,098 | 97% |
| Fire Alarm | \$43,900 | \$57,750 | \$13,850 | 32% |
| Kitchen Cabinets | \$39,317 | \$49,579 | \$10,262 | 26% |
| Roofing | \$54,950 | \$69,199 | \$14,249 | 26% |
| Appliances | \$17,850 | \$50,853 | \$33,003 | 185% |
| Plumbing | \$124,000 | \$202,460 | \$78,460 | 63% |
| Additional Labor | \$0 | \$54,997 | \$54,997 | 100% |
| Fire Sprinklers | \$70,000 | \$79,050 | \$9,050 | 13% |
| Additional Materials | \$0 | \$26,301 | \$26,301 | 100% |
| HVAC | \$102,400 | \$148,800 | \$46,400 | 45% |
| Electrical | \$180,000 | \$191,725 | \$11,725 | 7% |
| Jobsite Supervision | \$0 | \$91,010 | \$91,010 | 100% |
| Performance Bond | \$0 | \$20,000 | \$20,000 | 100% |

Impact: Government will incur cost overruns due to poor cost estimates provided by contractors.

Recommendation: MBCDC should establish a formal policy and procedure for managing construction projects. Specifically, this policy should require due diligence such as market research for potential

⁸ City of Miami has a procurement website where they post current opportunities (*i.e.*, [Miami Procurement Website](http://www.miamigov.com/Procurement/pages/SupplierCorner/DoingBusiness/content.asp) <http://www.miamigov.com/Procurement/pages/SupplierCorner/DoingBusiness/content.asp>).

construction work as well as benchmarking versus similar projects of similar size and complexity. In addition, each construction site should be monitored monthly and cost estimates should be updated bi-weekly or monthly.

Related Tasks: Task 2, Task 4

Observation #4

Description: 32 out of 40 items for the Neptune project construction estimate were under- or over-estimated 10% or more. Final costs were 68% higher than initially estimated.

Background: Inaccurate pricing and related assumptions provided by contractors indicate the pricing structure documented within the proposal did not cover all costs or costs were underestimated. Sample categories are listed below in Table 2; please see Appendix C for the full list of estimate versus actuals. We were not provided documentation or explanations for the variances identified.

Table 2 – Sample Costs by Category for Neptune

| Construction Hard Costs | Estimate | Actual | Difference | Percentage Difference |
|---|-----------|-----------|------------|-----------------------|
| Miscellaneous Steel and Railings | \$1,500 | \$14,900 | \$13,400 | 893% |
| Rough Carpentry | \$300 | \$0 | (\$300) | (100%) |
| Cabinetry/Vanity Tops | \$11,000 | \$17,000 | \$6,000 | 55% |
| Waterproofing/Caulking | \$600 | \$0 | (\$600) | (100%) |
| Roofing | \$0 | \$950 | \$950 | 100% |
| Hardware | \$450 | \$5,098 | \$4,648 | 1033% |
| Mirrors | \$1,200 | \$0 | (\$1,200) | (100%) |
| Gypsum Wallboard Systems | \$2,400 | \$9,500 | \$7,100 | 296% |
| Ceramic Tile @ Bathrooms | \$0 | \$33,950 | \$33,950 | 100% |
| Porch Tile Resurfacing | \$0 | \$2,700 | \$2,700 | 100% |
| Paint | \$1,000 | \$3,000 | \$2,000 | 200% |
| Toilet Accessories (Standard Bathrooms) | \$1,450 | \$0 | (\$1,450) | (100%) |
| Window Treatment | \$0 | \$7,790 | \$7,790 | 100% |
| Elevators | \$15,000 | \$20,127 | \$5,127 | 34% |
| Fire Protection/Fire Sprinklers | \$7,900 | \$14,155 | \$6,255 | 79% |
| Plumbing System and Fixtures | \$15,500 | \$42,125 | \$26,625 | 172% |
| HVAC | \$3,500 | \$5,500 | \$2,000 | 57% |
| Electrical Fixtures and Package | \$35,884 | \$63,329 | \$27,445 | 76% |
| Fire Alarm System | \$4,500 | \$0 | (\$4,500) | (100%) |
| Liability Insurance | \$173,847 | \$296,208 | \$122,361 | 70% |

Impact: Government will incur cost overruns due to poor cost estimates provided by contractors.

Recommendation: MBCDC should establish a formal policy and procedure for managing construction projects. Specifically, this policy should require due diligence such as market research for potential

construction work as well as benchmarking versus similar projects of similar size and complexity. In addition, each construction site should be monitored monthly and cost estimates should be updated bi-weekly or monthly.

Related Tasks: Task 2, Task 4

Observation #5

Description: MBCDC contracted with Miami Beach Community Contractors (MBCC), a subsidiary of the MBCDC, for work on the Neptune project building.

Background: MBCDC entered into a contract with its subsidiary, MBCC.

Impact: The contract between MBCDC and MBCC is not an arm's length transaction⁹, and it is not in accordance with the Department of Housing and Urban Development grant regulations.

Recommendation: MBCDC should abstain from the use of related party subcontractors. At a minimum, MBCDC should establish formal policies and procedures over related party transactions and monitor compliance with such requirements.

Related Tasks: Task 3

Observation #6

Description: Certain employee rates for the same type of work by the same employee changed multiple times for the work performed on the Allen and Neptune projects.

Background: Payroll records are inconsistent for contractors performing the work. The same labor category for the same company provided by the same person changes per week in some instances. See Table 3 below for an example of this situation.

Table 3 – Detail of hourly rates paid to one employee, by week

| Company | Work Classification | Hourly Rate | Number of Hours | Withholdings | Week Ending |
|---------|-------------------------|-------------|-----------------|--------------|-------------|
| MBCDC | Carpenter ¹⁰ | \$16.00 | 40 | \$211.86 | 1/2/2009 |
| MBCDC | Carpenter | \$16.00 | 40 | \$196.50 | 12/11/2009 |
| MBCDC | Carpenter | \$17.50 | 40 | \$213.48 | 4/2/2010 |
| MBCDC | Carpenter | \$18.16 | 40 | \$219.43 | 5/28/2010 |
| MBCDC | Carpenter | \$17.50 | 40 | \$213.48 | 6/11/2010 |
| MBCDC | Carpenter | \$18.59 | 40 | \$223.40 | 7/23/2010 |
| MBCDC | Carpenter | \$17.50 | 40 | \$213.48 | 8/6/2010 |
| MBCDC | Carpenter | \$19.30 | 40 | \$229.79 | 9/17/2010 |

⁹ A transaction in which the buyers and sellers of a product act independently and have no relationship to each other. The concept of an arm's length transaction is to ensure that both parties in the deal are acting in their own self-interest and are not subject to any pressure or duress from the other party.

¹⁰ The escalation in rates pertained to the same individual for the same type of work. To maintain privacy of MBCDC's employee, we will not disclose the name of this individual within this report.

| Company | Work Classification | Hourly Rate | Number of Hours | Withholdings | Week Ending |
|---------|---------------------|-------------|-----------------|--------------|-------------|
| MBCDC | Carpenter | \$16.00 | 40 | \$213.48 | 10/1/2010 |
| MBCDC | Carpenter | \$19.25 | 40 | \$229.34 | 11/5/2010 |
| MBCDC | Carpenter | \$20.78 | 40 | \$243.22 | 11/12/2010 |
| MBCDC | Carpenter | \$17.50 | 40 | \$213.48 | 12/3/2010 |
| MBCDC | Carpenter | \$21.44 | 40 | \$249.16 | 12/10/2010 |
| MBCDC | Carpenter | \$20.13 | 40 | \$237.27 | 12/31/2010 |

Impact: Failure to maintain complete payroll records could result in disallowance by the grantor (HUD) of payroll expenditures as well as an over or understatement of payroll expenses. Without adequate internal controls over costs, management faces the risk of submitting reimbursement requests for unallowable costs or duplication of cost.

Recommendation: MBCDC should establish formal policies and procedures for retaining records and comparing expenses/invoices versus contract requirements to maintain proper monitoring/governance over federal grants and contractors.

Related Tasks: Task 7

Observation #7

Description: The McGladrey audit report (see reference in task 1.3.9 for audit report references) stated that monthly reports were not prepared or submitted on a timely basis by sub-recipients to COMB as required by sub-recipient agreements. In addition, one sub-recipient had no evidence of monitoring visits in its files.

Background: McGladrey stated in the COMB financial statements⁷ audit report for compliance that sub-recipients are not submitting monthly reports to COMB in accordance with the sub-recipient agreement. Also, McGladrey stated they did not see evidence of any monitoring visits performed by COMB. In accordance with the agreement between COMB and MBCDC, COMB should perform at least one monitoring visit per month.

Impact: The terms in the agreement not being adhered to could result in poor contractor performance not being noticed or corrected.

Recommendation: COMB should establish a formal policy and procedure for monitoring and reviewing the activities of the sub-grantees of the program. In addition, each site monitoring should be clearly documented indicating at a minimum, the name of the reviewer, the date the monitoring occurred, the procedures performed, and if the sub-recipient complied with laws, regulations and the provisions of contracts and grant agreements. Such a sub-recipient monitoring plan should be reviewed by the City Manager or Department Director on a monthly basis.

Related Tasks: Task 9

2.2 Observation Type: Lack of Documentation

Observation #8

Description: We found 66 cancelled checks for the Allen and Neptune projects where no supporting documentation was produced for analysis as requested.

Background: Grant Thornton LLP did not receive requested supporting documentation (e.g., invoices, payroll forms, etc.) for many cancelled checks.

Potential Impact: Failure to maintain complete records of expenses could result in disallowance by the grantor (HUD) for the reimbursement of related expenditures. Without adequate internal controls over costs/expenses, management faces the risk of submitting reimbursement requests for unallowable costs or duplication of cost.

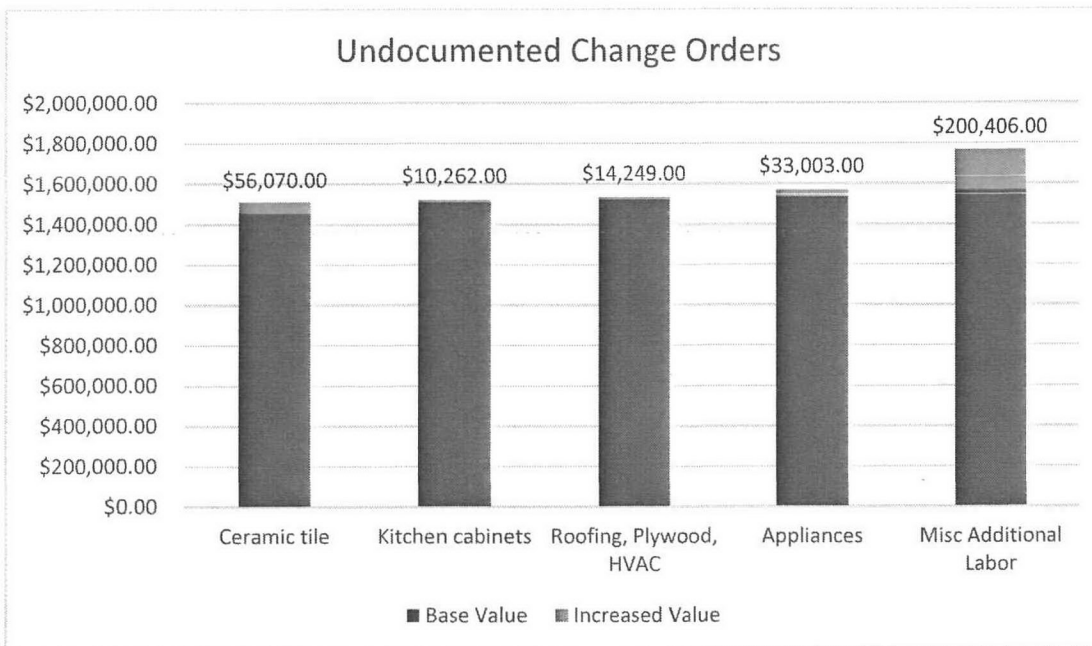
Recommendation: COMB should implement monitoring controls over disbursements by general contractors and include a “right to audit” clause in these contracts. We also recommend that COMB institute a record retention policy in accordance with HUD and state guidelines.

Related Tasks: Task 3

Observation #9

Description: No evidence was provided that demonstrates sub-recipient’s change orders were communicated to COMB prior to approval and payment. In addition, 5 approved change orders for the Allen project are missing supporting documentation.

Table 4 – Dollar Value of Missing Documentation



Background: The agreement between COMB and MBCDC states any change orders should be timely communicated and approved by COMB prior to payment.

Potential Impact: Failure to maintain complete records on the usage of grant funds could result in a disallowance by the grantor (HUD) for the reimbursement of related expenditures. Without adequate internal

controls over procurement for unnecessary, improper or unauthorized change orders, management faces the risk of submitting reimbursement requests for unallowable costs or duplication of cost.

Recommendation: Grant Thornton recommends that COMB implement monitoring controls of change orders and require the contractor to receive approval from COMB and the City Manager before issuing change orders.

Related Tasks: Task 4

Observation #10

Description: There was no documentation provided that explains the purpose of the contingency amount and how it was calculated or how it was used. The contingency amount for the Allen project was estimated and paid at \$40,000 and the Neptune project did not budget for contingency.

Background: No supporting documentation justifying the purpose of recording and disbursing the contingency amount for the Allen.

Potential Impact: Contingency amount is arbitrary and lacks justification. The funds paid for the contingency amount may not have been necessary for project completion.

Recommendation: COMB should require a justification of contingency amount from contractors before commencement of work.

Related Tasks: Task 5

Observation #11

Description: There are four instances where receipts kept by MBCDC disclosed support program expenditures that appear to be different than regular receipts. These receipts appear unusual as they are missing the company's letter head and/or invoice numbers. Additionally, we were not provided draw down documentation for Allen in the amount of \$913,753 and for Neptune in the amount of \$841,644.

Table 5 – Details of four unusual receipts

| Date | Payable to | Amount | Check From | Invoice Date | Invoice Number | Invoice Amount |
|-----------|----------------------------|------------|------------------------------------|------------------------|--------------------|----------------|
| 5/26/2010 | The Home Depot | \$586.55 | MBCDC: The Allen Operating Account | 4/23/2010 4/15/2010 | 7230986 5230880 | \$586.55 |
| 11/2/2010 | Blue Bar Plumbing | \$8,000.00 | MBCDC: The Allen Operating Account | 11/1/2010 | N/A | \$8,000.00 |
| No Date | No Check | N/A | N/A | 11/15/2010 | N/A | \$75,000.00 |
| 1/12/2011 | Ideal Granite & Marble Inc | \$1,500.00 | MBCDC: The Allen Operating Account | No Date | N/A | \$1,500.00 |

Background: We noted several receipts that appear unusual. These invoices were missing invoice numbers and/or official letterhead.

Potential Impact: Work that was paid for may not have been completed or of acceptable quality.

Recommendation: COMB should implement policies to review invoices that the general contractor pays to sub-contractors and implement controls for reviewing invoices, reimbursements, and draw downs.

Related Tasks: Task 6

Observation #12

Description: We reviewed the certified payroll record for the Allen and examined 616 payroll records for a total of \$113,284. We reviewed supporting documentation for cancelled checks totaling \$49,567; however, we found no supporting documentation of cancelled checks for payroll received from MBCDC for the remaining \$63,717.

Background: Based on the lack of documentation regarding cancelled checks for payroll, we are unable to review where payroll expenses were spent.

Potential Impact: Failure to maintain complete payroll records could result in disallowance by the grantor (HUD) of payroll expenditures as well as an over or understatement of payroll expenses. Without adequate internal controls over costs, management faces the risk of submitting reimbursement requests for unallowable costs or duplication of cost.

Recommendation: COMB should create policies and procedures, in accordance with HUD and other regulations, to require the contractor to keep detailed payroll records with corresponding cancelled checks and implement monitoring policies and controls over contractor payroll reporting to include certified timesheets submitted on a bi-weekly basis. Further, compliance with such requirements by the contractor should be monitored by COMB.

Related Tasks: Task 7

Observation #13

Description: We reviewed the certified payroll record for the Neptune and examined 405 payroll records for a total of \$60,202. We reviewed supporting documentation for cancelled checks totaling \$2,594 however, we found no supporting documentation of cancelled checks for payroll received from MBCDC for the remaining \$57,608.

Background: Based on the lack of documentation provided regarding cancelled checks for payroll, we are unable to where payroll expenses were spent.

Potential Impact: Failure to maintain complete payroll records could result in disallowance by the grantor (HUD) of payroll expenditures as well as an over or understatement of payroll expenses. Without adequate internal controls over costs, management faces the risk of submitting reimbursement requests for unallowable costs or duplication of cost.

Recommendation: COMB should create policies and procedures (in accordance with HUD and other regulations) that requires the contractor to keep detailed payroll records with corresponding cancelled checks, as well as implement monitoring policies and controls over contractor payroll reporting (including certified timesheets submitted on a bi-weekly basis). Further, compliance with such requirements by the contractor should be monitored by COMB.

Related Tasks: Task 7

Observation #14

Description: There were no meeting minutes provided that would indicate official meetings occurred between the general contractor, MBCDC, and sub-contractors.

Background: Guidance was not issued to subcontractors from the general contractor. Records of meetings and communications between COMB and MBCDC (and MBCDC and sub-contractors) were not provided for review.

Potential Impacts: Oversight of sub-contractor work may be impaired or non-existent, rehabilitation of buildings might not be satisfactory, and costs may be higher because of incomplete or no guidance on work required.

Recommendation: COMB should require general contractors to meet and document meetings with sub-contractors before commencement of work. Grant Thornton further recommends that the City have a representative attend the meeting between the general contractor and sub-contractor. Meeting minutes should be maintained.

Related Tasks: Task 8

Observation #15

Description: Grant Thornton was not provided any supporting documentation that indicates that MBCDC leased or purchased any major equipment.

Background: MBCDC hired contractors to provide the needed equipment and services. During our review of supporting documentation, we were not provided with documentation that indicated MBCDC leased or purchased major equipment.

Potential Impacts: We were unable to confirm if MBCDC leased or purchased equipment.

Recommendation: COMB should require general contractors to keep records of purchased or leased equipment using COMB funds. Inspectors should log equipment onsite when performing visits to the job site.

Related Tasks: Task 10

Section 3 – Analysis on Observations

3.1 Task 1

As a result of the procedures and the observations we denoted above, this subsection will focus on the analysis of each observations. Analysis is as follows:

Observation #1

Analysis. COMB and MBCDC lacked scorecard documentation to evidence the selection of winning bidders for Allen and Neptune properties was performed according to the RFP. According to RFP, the selection criteria was as follows: Qualification, Construction Cost Efficiency, Schedule of Completion/Construction Schedule, Experience on Affordable Housing, Experience in Historic Preservation, and Extent in Minority Participation. Evidence of scorecard completion was requested from the Department Director and MBCDC to support the selection of winning bid but documentation could not be provided. Failure to provide documentation could indicate that a review of contractor qualifications against criteria established in the RFP was not performed.

Observation #2

Analysis. COMB and MBCDC lacked detail and supporting documentation to provide evidence that a pre-bid conference for Neptune was advertised in the local newspaper and a pre-bid conference was held. Grant Thornton requested from the Department Director and MBCDC newspaper ads and minutes of the pre-bid conference, in addition to contractor and sub-contractor files, for the Allen and Neptune pre-bid conference to corroborate the public notice requirement. We only received documentation for Allen. Failure to provide documentation could indicate costs were not reviewed to verify they were not under or overstated as compared to other solicitations.

Observation #3

Analysis. MBCDC lacked policies and procedures for managing construction projects. Grant Thornton requested from the Department Director and MBCDC documentation for the Allen property to evidence market research and benchmarking of costs were performed but supporting documentation was not provided. Cost incurred were \$473,475 (36%) higher than proposed during the proposal process. Failure to provide documentation could indicate contractor underbid on proposal and increased costs subsequent to award.

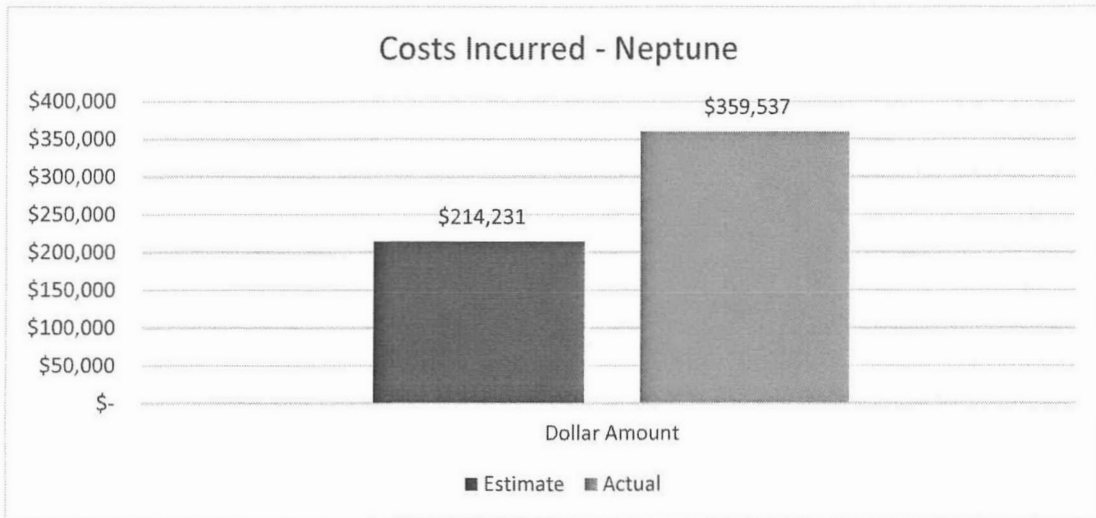
Chart.



Observation #4

Analysis. MBCDC lacked policies and procedures for managing construction projects. Grant Thornton requested from the Department Director and MBCDC documentation for Allen to evidence market research and benchmarking of costs was performed but supporting documentation was not provided. Cost incurred were 68% (\$145,306) higher than proposed during the proposal process. Failure to provide documentation could indicate contractor underbid on proposal and increased costs subsequent to award.

Chart.



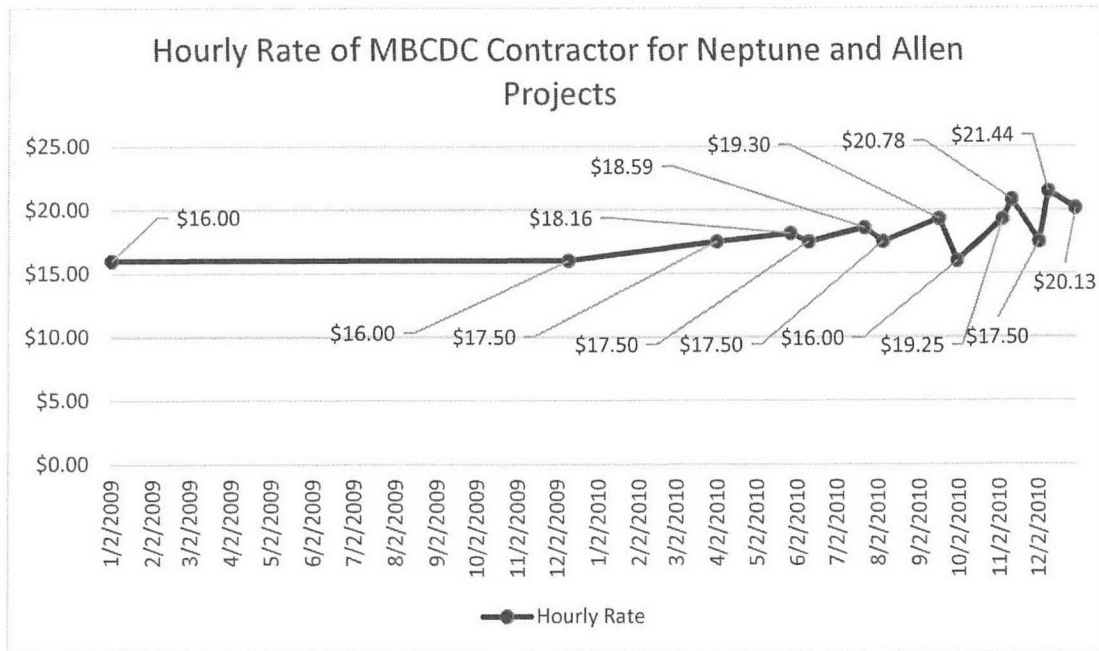
Observation #5

Analysis. MBCDC lacks policies and procedures to address related party transactions. Grant Thornton noted Manuel Forero is the Project Director of MBCDC and President of MBCC, which does not appear to constitute an arm's length transaction. Grant Thornton requested scorecards from the Department Director and MBCDC, which were not provided to substantiate the award to MBCC by MBCDC and to provide evidence that this was not an arm's length transaction. Failure to implement policies and procedures addressing independence and related party transactions for procuring of services could lead to misappropriation of assets or fraud.

Observation #6

Analysis. MBCDC lacks policies and procedures to monitor contractual requirements and costs incurred for projects funded by Federal grants. Grant Thornton requested documentation from the Department Director and MBCDC and reviewed payroll records provided by MBCDC but all requested payroll records were not provided. Grant Thornton noted the hourly rate for 1 MBCDC Carpenter fluctuated while the labor category remained the same. As such, payroll expenses for Allen and Neptune properties could be under or overstated due to fluctuating hourly rates. Failure to implement policies and procedures to monitor costs incurred and retention of records could lead to a disallowance of expense reimbursement in addition to an over or understatement of payroll expenses on the financial statements.

Chart.



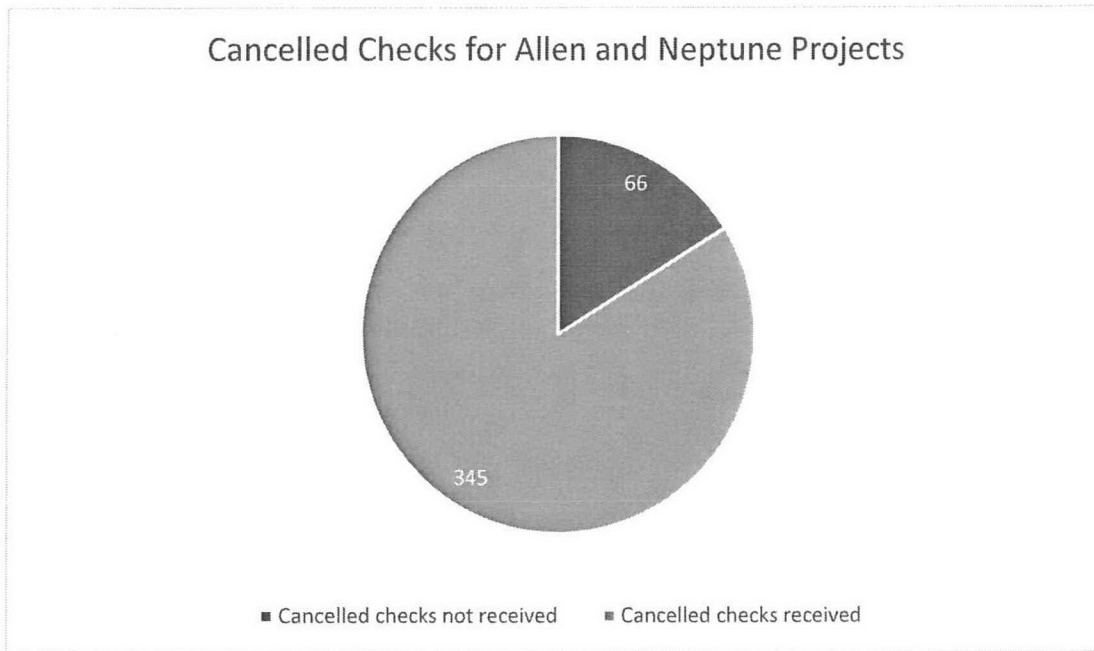
Observation #7

Analysis. COMB lacks policies and procedures to monitor the requirements of sub-recipient agreements for Federal grants. Grant Thornton requested from the Department Director audit reports from FY07 to FY13 and Grant Thornton received all audit report reports. Per review of FY13, FY12, FY11, and FY10 COMB Audit report, monthly reports were not prepared or submitted to COMB on a timely basis by sub-recipients. Additionally, COMB lacked evidence that monitoring visits were performed in accordance with sub-recipient agreement. Failure to abide by the terms of the agreement could lead to late payments from the City or cancellation of the grant.

Observation #8

Analysis. COMB lacked detail and supporting documentation for 66 cancelled checks nor was a population of all Allen and Neptune cancelled checks provided as requested. Grant Thornton requested from Department Director and MBCDC supporting documentation for 411 cancelled checks including contracts, change orders, purchase orders, invoices, and payroll records to support cancelled checks but did not receive all documentation as requested. Overpayment of expenses, duplicate payments of invoices, payments made to wrong vendors, payment for services received greater than 60 days old and payments to vendors for services not received could occur by failing to provide supporting documentation. Additionally, failure to provide supporting documentation and complete records of expenses could result in a disallowance of expenditures submitted for reimbursement by HUD.

Chart.



Observation #9

Analysis. COMB lacked supporting documentation for Allen and Neptune change orders. Grant Thornton requested supporting documentation from the Department Director and MBCDC to evidence COMB reviewed and approved change orders prior payment but evidence could not be provided. Additionally, COMB lacked supporting documentation to justify change order request for 5 Allen change orders. Failure to maintain complete records of the usage of grant funds could result in disallowance by the grantor (HUD) for the reimbursement of related expenditures.

Chart.



Observation #10

Analysis. COMB lacked supporting documentation to explain the purpose of the contingency amount noted in the sub-recipient agreement and for the contingency fund expenditures. Grant Thornton requested from the Department Director and MBCDC supporting document for the payment of contingency funds but documentation was not provided. Failure to obtain justification of contingency funds could result in cost overruns and project delays as they may indicate project delays and incorrect cost estimates.

Observation #11

Analysis. COMB lacks supporting documentation to justify expenditures submitted by MBCDC. Grant Thornton requested invoices for several disbursements from the Department Director and MBCDC, of which, 4 looked unusual. Grant Thornton noted 3 invoices totaling \$10,086.55 where the supporting documentation received appeared to be different than regular receipts, and 1 invoice for \$75,000 that was paid based upon review of the applicable bank statement but a cancelled check was not provided as evidence of services received. Failure to obtain supporting documentation prior to payment could lead to payment of invalid invoices, payment for services not received, and payment of duplicate invoices.

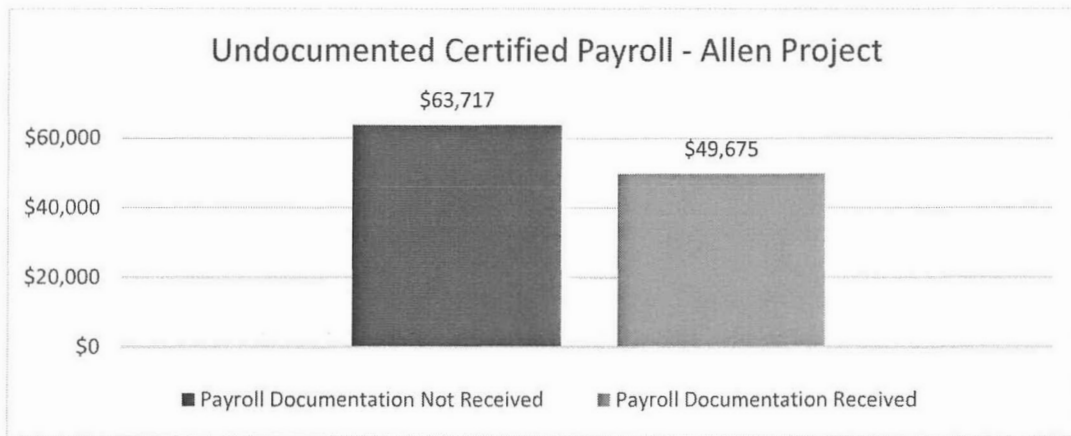
Chart.



Observation #12

Analysis. COMB lacked supporting documentation for the certified payroll record of the Allen property that were received for reimbursement. Grant Thornton requested 1,019 payroll records for the Allen and Neptune property from the Department Director and MBCDC, of which 616 were for the Allen property. Payroll records, in the amount of \$63,717, could not be validated due to lack of supporting documentation. Failure to provide supporting documentation and complete records of payroll expenses could result in a disallowance of expenditures submitted for reimbursement by HUD. Additionally, lack of supporting documentation could result in payment of invalid invoices, payment for services not received, and payment of duplicate invoices.

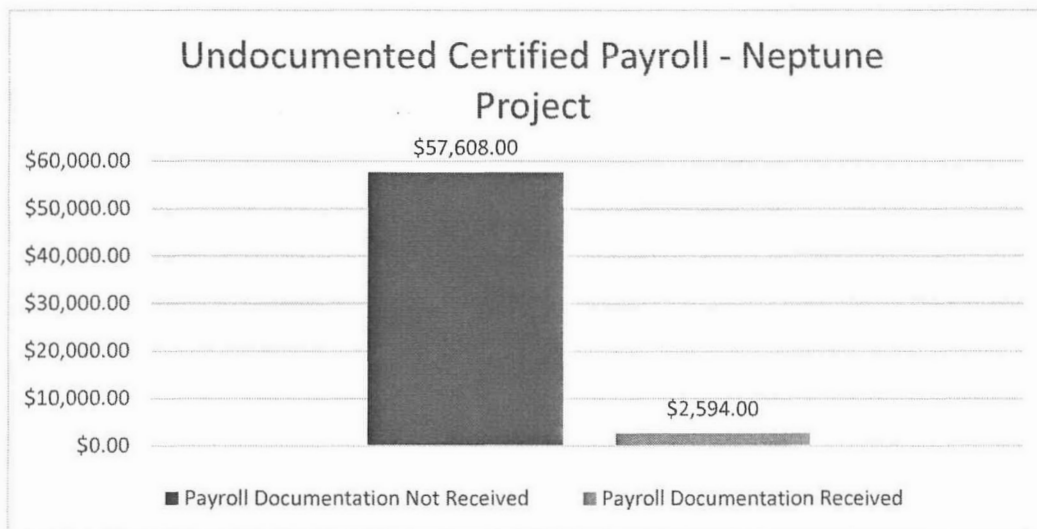
Chart.



Observation #13

Analysis. COMB lacked supporting documentation for the certified payroll record of the Neptune property that were received for reimbursement. Grant Thornton requested 1,019 payroll records for the Allen and Neptune property from the Department Director and MBCDC, of which 403 were for the Neptune property. Payroll records, in the amount of \$57,608 could not be validated due to lack of supporting documentation. Failure to provide supporting documentation and complete records of payroll expenses could result in a disallowance of expenditures submitted for reimbursement by HUD. Additionally, lack of supporting documentation could result in payment of invalid invoices, payment for services not received, and payment of duplicate invoices.

Chart.



Observation #14

Analysis. COMB and MBCDC lacked supporting documentation to indicate official status meetings took place between COMB, MBCDC, and sub-contractors. Grant Thornton requested meeting minutes of meetings held between COMB, MBCDC, and sub-contractors but documentation was not provided. Failure to provide meeting minutes could indicate ineffective oversight of both properties, rehabilitation of buildings might not be satisfactory, and costs may be inflated due to no feedback on contractor performance.

Observation #15

Analysis. COMB lacked supporting documentation for expenditures that were submitted for reimbursement related to leased and purchased major equipment. Grant Thornton requested supporting documentation from the Department Director and MBCDC to substantiate expense reimbursements for leased and purchased equipment but none was provided. Failure to provide supporting documentation for leased and purchased equipment could indicate COMB expended funds for services and equipment not received.

Section 4 – Restrictions of this Report

Our services were performed in accordance with the Statement on Standards for Consulting Services promulgated by the American Institute of Certified Public Accountants, and do not constitute an audit or other attestation service, the objective of which is the expression of an opinion on financial statements or a portion thereof. Accordingly, we do not express any such opinion.

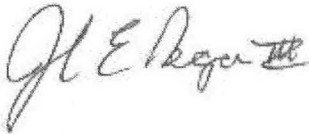
In accordance with your instructions, we limited our work to procedures approved by you. Accordingly, we make no representation regarding the sufficiency of the performed procedures either for the purpose for which the report has been requested or for any other purpose. This work was more limited than would be necessary to express an opinion on the internal control environment and furthermore, would not necessarily disclose all material weaknesses in the environment. Accordingly, we are unable to and do not express an opinion on the internal control environment. Had we performed additional procedures, or had we made an examination of the internal control environment for the purpose of expressing an opinion thereon, other matters might have come to our attention that would have been reported.

These procedures should not be taken to supplant the additional inquiries and procedures that you should take in considering the resolution of this matter. None of the contents of this report are intended to provide legal advice. This report is prepared solely for internal use for the purpose of assisting your investigation and is not to be used, referred to or distributed for any other purpose other than those described within the Request for Proposal (RFP). We have no responsibility to update this report for events and circumstances occurring after the date of this report.

We appreciate the opportunity to serve you in this matter. If we can assist you by explaining our work in more detail or by helping you to implement our recommendation, please do not hesitate to contact us.

There are no other changes to the letter and all other terms and conditions remain in effect.

Sincerely,



Jack Reagan, Partner
Grant Thornton LLP

Enclosures

Appendix A: Observations Summary

The table below provides a summary of the fifteen (15) observations, listed in order of the ten (10) requested tasks, in which we determined through our evaluation procedures that were not operating in an effective manner during the Phase-I A&B examination.

| Task | Observation | Potential Impact | Classification of Observations | Background |
|--|---|--|---------------------------------|--|
| Task 1 – Subcontractor Qualification Assessment | Grant Thornton LLP was provided no documentation supporting how winning bidders were selected for the Allen and Neptune projects (<i>i.e.</i> , scorecard). | Failure to comply with the evaluation criteria could result in the selection of a contractor not meeting the criteria specified in the RFPs. | Lack of Policies and Procedures | The lack of evidence does not allow an analysis to determine whether the proposal evaluation criteria described in the applicable RFPs was consistently followed as required. Moreover, we found no documentation indicating that a proposal evaluation committee was established and that the committee performed a review of the solicitation respondents. |
| | Grant Thornton LLP was not provided documentation to analyze whether Neptune's pre-bid conference information was advertised in a local newspaper, or if such a conference was ever held. | Failure to comply with, or lack of, evaluation criteria could result in the selection of an unqualified contractor. | Lack of Policies and Procedures | Analyzed the Neptune project documentation and located no proposal evaluation documentation (<i>i.e.</i> , criteria) that would have resulted from a pre-bid conference. Pre-bid conference and proposal evaluation criteria was provided for the Allen project. |
| Task 2 – Architectural Line Items | 14 out of 34 items analyzed for the Allen project construction estimate exceeded the estimated amount by 10% or more. Final costs were 36% higher than initially estimated. | Government will incur cost overruns due to poor cost estimates provided by contractors. | Lack of Policies and Procedures | Inaccurate pricing and related assumptions provided by contractors indicate that the contractor is not familiar with the work required to perform the required tasks to renovate the structure. |

CITY OF MIAMI BEACH FLORIDA MASTER TERM CONTRACT NO. 973-000-14-02
PHASE I-A & I-B – FUNDING PROGRAM ASSESSMENT

| Task | Observation | Potential Impact | Classification of Observations | Background |
|--|---|--|---------------------------------|---|
| | 32 out of 40 items for the Neptune project construction estimate were under- or over-estimated 10% or more. Final costs were 68% higher than initially estimated. | Government will incur cost overruns due to poor cost estimates provided by contractors. | Lack of Policies and Procedures | Inaccurate pricing assumptions may indicate that the contractor is not familiar with the work necessary to rehabilitate the structure. We were not provided any documentation or explanations for the variances identified. |
| Task 3 – Review Requests for Reimbursement from Funding Program | MBCDC contracted with Miami Beach Community Contractors (MBCC), a subsidiary of the MBCDC, for work on the Neptune project building. | The contract between MBCDC and MBCC is not an arm's length transaction. | Lack of Policies and Procedures | MDCDC entered into a contract with its subsidiary MBCC. |
| | We found 66 cancelled checks for the Allen and Neptune projects where no supporting documentation was produced for analysis as requested. | Failure to maintain complete records of expenses could result in disallowance by the grantor (HUD) for the reimbursement of related expenditures. Without adequate internal controls over costs/expenses, management faces the risk of submitting reimbursement requests for unallowable costs or duplication of cost. | Lack of Documentation | Grant Thornton LLP did not receive requested supporting documentation (<i>e.g.</i> , invoices, payroll forms, etc.) for many cancelled checks. |

CITY OF MIAMI BEACH FLORIDA MASTER TERM CONTRACT NO. 973-000-14-02
PHASE I-A & I-B – FUNDING PROGRAM ASSESSMENT

| Task | Observation | Potential Impact | Classification of Observations | Background |
|---|---|---|--------------------------------|--|
| Task 4 – Change Order Inspection | No evidence was provided that demonstrates sub-recipient's change orders were communicated to COMB prior to approval and payment. In addition, 5 approved change orders for the Allen project are missing supporting documentation. | Failure to maintain complete records of the usage of grant funds, this could result in disallowance by the grantor (HUD) for the reimbursement of related expenditures. Without adequate internal controls over procurement for unnecessary, improper or unauthorized change orders, management faces the risk of submitting reimbursement requests for unallowable costs or duplication of cost. | Lack of Documentation | The agreement between COMB and MBCDC states any change orders should be timely communicated and approved by COMB prior to payment. |
| Task 5 – Contingency Account | There was no documentation provided that explains the purpose of the contingency amount and how it was calculated or how it was used. The contingency amount for the Allen project was estimated and paid at \$40,000 and the Neptune project did not budget for contingency. | Contingency amount is arbitrary and lacks justification. The funds paid for the contingency amount may not have been necessary for project completion. | Lack of Documentation | No supporting documentation justifying the purpose of recording and disbursing the contingency amount for the Allen. |

| Task | Observation | Potential Impact | Classification of Observations | Background |
|-------------------------------------|---|--|---------------------------------|--|
| Task 6 – Program Examination | There are four instances where receipts kept by MBCDC provided support program expenditures appear to be different than regular receipts. These receipts appear unusual as they are missing the company's letter head and/or invoice numbers. | Work that was paid for may not have been completed or of acceptable quality. | Lack of Policies and Procedures | We noted several receipts that appear unusual. These invoices were missing invoice numbers and/or official letterhead. |
| Task 7 – Payroll Statements | Certain employee rates for the same type of work by the same employee changed multiple times for the work performed on the Allen and Neptune projects. | Failure to maintain complete payroll records could result in disallowance by the grantor (HUD) of payroll expenditures as well as an over or understatement of payroll expenses. Without adequate internal controls over costs, management faces the risk of submitting reimbursement requests for unallowable costs or duplication of cost. | Lack of Policies and Procedures | Payroll records are inconsistent for contractors performing the work. The same labor category for the same company provided by the same person changes per week in some instances. |

| Task | Observation | Potential Impact | Classification of Observations | Background |
|------|---|--|--------------------------------|--|
| | We reviewed the certified payroll record for the Allen and examined 616 payroll records for a total of \$113,283.89. We reviewed supporting documentation for cancelled checks totaling \$49,567; however, we found no supporting documentation of cancelled checks for payroll received from MBCDC for the remaining \$63,716. | Failure to maintain complete payroll records could result in disallowance by the grantor (HUD) of payroll expenditures as well as an over or understatement of payroll expenses. Without adequate internal controls over costs, management faces the risk of submitting reimbursement requests for unallowable costs or duplication of cost. | Lack of Documentation | Based on the lack of documentation regarding cancelled checks for payroll, we are unable to review where payroll expenses were spent. |
| | We reviewed the certified payroll record for the Neptune and examined 405 payroll records for a total of \$60,202. We reviewed supporting documentation for cancelled checks totaling \$2,594; however, we found no supporting documentation for cancelled checks for payroll received from MBCDC for the remaining \$57,608. | Failure to maintain complete payroll records could result in disallowance by the grantor (HUD) of payroll expenditures as well as an over or understatement of payroll expenses. Without adequate internal controls over costs, management faces the risk of submitting reimbursement requests for unallowable costs or duplication of cost. | Lack of Documentation | We recommend that COMB create policies and procedures, in accordance with HUD and other regulations, to require the contractor to keep detailed payroll records with corresponding cancelled checks and implement monitoring policies and controls over contractor payroll reporting to include certified timesheets submitted on a bi-weekly basis. Further, compliance with such requirements by the contractor should be monitored by COMB. |

| Task | Observation | Potential Impact | Classification of Observations | Background |
|---|--|---|---------------------------------|---|
| Task 8 – Meeting Minutes | There were no meeting minutes provided that indicate official meetings occurred between the general contractor (MBCDC) and sub-contractors. | Oversight of sub-contractor work may be impaired or non-existent, rehabilitation of buildings might not be satisfactory, and costs may be higher because of incomplete or no guidance on work required. | Lack of Documentation | Guidance was not issued to subcontractors from the general contractor. Records of meetings and communications between COMB and MBCDC (and MBCDC and sub-contractors) were not provided for review. |
| Task 9 – Review Audit Documentation and Findings | The McGladrey audit report (see reference in task 1.3.9 for audit report references) stated that monthly reports were not prepared or submitted on a timely basis by sub-recipients to COMB as required by sub-recipient agreements. In addition, one sub-recipient had no evidence of monitoring visits in its files. | The terms in the agreement not being adhered to could result in poor contractor performance not being noticed or corrected. | Lack of Policies and Procedures | McGladrey stated in the COMB financial statements ⁷ audit report for compliance that sub-recipients are not submitting monthly reports to COMB in accordance with the sub-recipient agreement. Also, McGladrey stated they did not see evidence of any monitoring visits performed by COMB. In accordance with the agreement between COMB and MBCDC, COMB should perform at least one monitoring visit per month for capital projects. |
| Task 10 – Equipment Invoices | Grant Thornton didn't come across any supporting documentation that indicates that MBCDC leased or purchased any major equipment. | Unable to confirm if MBCDC leased or purchased equipment. | Lack of Documentation | MBCDC hired contractors to provide the needed equipment and services. We didn't come across any documentation which indicated that MBCDC leased or purchased major equipment. |

Appendix B: Allen Estimated vs. Actual Costs

| Construction Hard Costs | Estimate | Actual | Difference | Percentage Difference |
|---------------------------------|--------------------|--------------------|------------------|-----------------------|
| Selective Demolition | \$15,000 | \$15,000 | \$0 | 0% |
| Framing | \$65,000 | \$65,000 | \$0 | 0% |
| Gypsum Drywall Systems | \$34,600 | \$34,600 | \$0 | 0% |
| Ceramic Tile in Bathrooms | \$15,453 | \$20,054 | \$4,601 | 30% |
| Ceramic Tiles for Living Areas | \$16,000 | \$67,469 | \$51,469 | 322% |
| Waste Management | \$8,380 | \$16,478 | \$8,098 | 97% |
| Utilities during Construction | \$9,000 | \$9,000 | \$0 | 0% |
| Fire Alarm | \$43,900 | \$57,750 | \$13,850 | 32% |
| Kitchen Cabinets | \$39,317 | \$49,579 | \$10,262 | 26% |
| Roofing | \$54,950 | \$69,199 | \$14,249 | 26% |
| All Star South Glass | \$3,900 | \$3,900 | \$0 | 0% |
| Don Bayley Carpets | \$15,000 | \$15,000 | \$0 | 0% |
| Sherwin Williams Interior Paint | \$22,000 | \$22,000 | \$0 | 0% |
| Appliances | \$17,850 | \$50,853 | \$33,003 | 185% |
| Windows and Storefronts | \$165,000 | \$165,000 | \$0 | 0% |
| Exterior Metal Doors & Frames | \$8,000 | \$8,000 | \$0 | 0% |
| Interior Doors | \$19,680 | \$19,680 | \$0 | 0% |
| Railings | \$5,200 | \$5,200 | \$0 | 0% |
| ADA Ramp Accessibility | \$8,000 | \$8,000 | \$0 | 0% |
| Stucco | \$90,000 | \$90,000 | \$0 | 0% |
| Exterior Paint | \$35,000 | \$35,000 | \$0 | 0% |
| Elevator and Installation | \$75,000 | \$75,000 | \$0 | 0% |
| Plumbing | \$124,000 | \$202,460 | \$78,460 | 63% |
| Fire Extinguishers | \$370 | \$370 | \$0 | 0% |
| Additional Labor | \$0 | \$54,997 | \$54,997 | 100% |
| Fire Sprinklers | \$70,000 | \$79,050 | \$9,050 | 13% |
| Additional Materials | \$0 | \$26,301 | \$26,301 | 100% |
| Fire Rating All Penetrations | \$3,500 | \$3,500 | \$0 | 0% |
| HVAC | \$102,400 | \$148,800 | \$46,400 | 45% |
| Building Water Heater | \$8,600 | \$8,600 | \$0 | 0% |
| Electrical | \$180,000 | \$191,725 | \$11,725 | 7% |
| Jobsite Supervision | \$0 | \$91,010 | \$91,010 | 100% |
| Performance Bond | \$0 | \$20,000 | \$20,000 | 100% |
| Subtotal | \$1,255,100 | \$1,728,575 | \$473,475 | 38% |
| Contingencies | \$40,000 | \$40,000 | \$0 | 0% |
| Total Construction Costs | \$1,295,100 | \$1,768,575 | \$473,475 | 37% |

THE INFORMATION CONTAINED WITHIN THIS REPORT IS CONSIDERED CONFIDENTIAL AND PROPRIETARY AND SHOULD BE WITHHELD FROM PUBLIC DISCLOSURE.

Appendix C: Neptune Estimate vs. Actual Costs

| Construction Hard Costs | Estimate | Actual | Difference | Percentage Difference |
|--|----------|----------|------------|-----------------------|
| General Requirements | | | | |
| General Conditions/Superintendent | \$7,200 | \$5,000 | (\$2,200) | (31%) |
| General Conditions/Project Manager | \$3,500 | \$2,000 | (\$1,500) | (43%) |
| General Labor | \$12,120 | \$10,000 | (\$2,120) | (17%) |
| Mobilization and Setup | \$900 | \$300 | (\$600) | (67%) |
| Architect/Engineering Fees | \$10,000 | \$10,000 | \$0 | 0% |
| Master Permit Fee (Allowance) | \$3,000 | \$1,500 | (\$1,500) | (50%) |
| Shop Drawings Permits Fee (Allowance) | \$1,200 | \$0 | (\$1,200) | (100%) |
| Blueprints/Reproductions | \$250 | \$250 | \$0 | 0% |
| Cleaning/Final Cleaning | \$600 | \$0 | (\$600) | (100%) |
| Dumpsters | \$495 | \$495 | \$0 | 0% |
| Quality Control/Punch List | \$300 | \$0 | (\$300) | (100%) |
| Site Work | | | | |
| Guard Rails | \$4,000 | \$0 | (\$4,000) | (100%) |
| Landscaping | \$1,200 | \$600 | (\$600) | (50%) |
| Concrete | | | | |
| Concrete/Masonry/Demising Wall | \$4,000 | \$0 | (\$4,000) | (100%) |
| Metals | | | | |
| Miscellaneous Steel and Railings | \$1,500 | \$14,900 | \$13,400 | 893% |
| Woods and Plastics | | | | |
| Rough Carpentry | \$300 | \$0 | (\$300) | (100%) |
| Cabinetry/Vanity Tops | \$11,000 | \$17,000 | \$6,000 | 55% |
| Thermal & Moisture Protection | | | | |
| Waterproofing/Caulking | \$600 | \$0 | (\$600) | (100%) |
| Roofing | \$0 | \$950 | \$950 | 100% |
| Doors and Windows | | | | |
| Metal Doors and Frames | \$650 | \$650 | \$0 | 0% |
| Hardware | \$450 | \$5,098 | \$4,648 | 1033% |
| Mirrors | \$1,200 | \$0 | (\$1,200) | (100%) |
| Finishes | | | | |
| Gypsum Wallboard Systems | \$2,400 | \$9,500 | \$7,100 | 296% |
| Ceramic Tile @ Bathrooms | \$0 | \$33,950 | \$33,950 | 100% |
| Porch Tile Resurfacing | \$0 | \$2,700 | \$2,700 | 100% |
| Wood Base (4") | \$350 | \$350 | \$0 | 0% |
| Paint | \$1,000 | \$3,000 | \$2,000 | 200% |
| Specialties | | | | |
| Toilet Accessories (HC Bathrooms) | \$0 | \$0 | \$0 | 0% |

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CITY OF MIAMI BEACH FLORIDA MASTER TERM CONTRACT NO. 973-000-14-02
PHASE I-A & I-B – FUNDING PROGRAM ASSESSMENT

| Construction Hard Costs | Estimate | Actual | Difference | Percentage Difference |
|---|------------------|------------------|------------------|-----------------------|
| Toilet Accessories (Standard Bathrooms) | \$1,450 | \$0 | (\$1,450) | (100%) |
| Equipment | | | | |
| Kitchen Appliances | \$23,000 | \$23,992 | \$992 | 4% |
| Furnishings | | | | |
| Window Treatment | \$0 | \$7,790 | \$7,790 | 100% |
| Conveying Systems | | | | |
| Elevators | \$15,000 | \$20,127 | \$5,127 | 34% |
| Mechanical | | | | |
| Fire Protection/Fire Sprinklers | \$7,900 | \$14,155 | \$6,255 | 79% |
| Plumbing System and Fixtures | \$15,500 | \$42,125 | \$26,625 | 172% |
| Fire Extinguishers | \$898 | \$898 | \$0 | 0% |
| HVAC | \$3,500 | \$5,500 | \$2,000 | 57% |
| Electrical | | | | |
| Electrical Fixtures and Package | \$35,884 | \$63,329 | \$27,445 | 76% |
| Fire Alarm System | \$4,500 | \$0 | (\$4,500) | (100%) |
| Liability Insurance | \$173,847 | \$296,208 | \$122,361 | 70% |
| Total | \$214,231 | \$359,537 | \$145,306 | 68% |

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Appendix D: Lien(s) Table

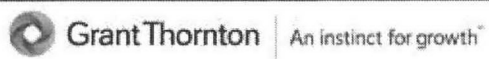
| Date | Property | Parties | Observed Lien Amount | Description |
|------------|----------|-------------------------------------|----------------------|---|
| 5/8/2009 | Allen | MBCDC and City of Miami Beach | Not Available | On May 8th, 2009, a request was sent to Mr. Jorge Gonzalez, City Manager, to obtain a lien waiver for building violations #BV07001377, BV080000642 and special master cases #JB08000042 and JB08000373. The letter states that Allen building was being stabilized by MBCDC when two violations were issued, and the code enforcement office ordered to stop work and issued the violations. Violation #BV08000642 has been corrected and inspected, and violation #BV07001377 is being corrected with work currently underway under permit #B07001377 but cannot be closed until all final inspections are obtained. Both cases are now carrying fines and liens have been placed on the property by the City of Miami Beach. The MBCDC also states that they don't have the resources to pay the fines associated with these violations, and they are also unable to close on committed state and private financing that will be used to complete renovations due to liens that show on the Title search. |
| 2/28/2008 | Allen | MBCDC and MBCDC: The Allen LLC | \$ 81,128 | Signed partial Release of Lien, Miami Beach CDC having a contract with MBCDC Allen LLC to furnish labor, equipment, materials and services for construction. Payment check not included in supporting documentation. |
| 10/29/2009 | Allen | J. Cappelletti and MBCDC: The Allen | \$ 327,334 | |
| | | Total | \$ 408,462 | |
| 9/11/2012 | Neptune | Neptune and MOT Interior Systems | \$ 3,000 | Partial waiver and Release of Lien dated 8/30/2012. Payment of pending invoices was paid on 4/2/2012 with check number 1257. |
| 9/12/2012 | Neptune | All-Jer Construction and Neptune | \$ 1,000 | Final Release of Lien form signed and notarized confirms release of lien against Neptune. The form represents that All-Jer Construction waives and quit and claims against the owner which the undersigned has or might have against the real estate might have against the real state situated in Miami-Dade County. |
| 9/12/2012 | Neptune | Cardel Fire Protection and Neptune | \$ 8,200 | Cardel Fire inspection Release of Lien against Neptune property. Payment made in the amount of \$8200 with check #1390. (File 1162, page 29-31) |

CITY OF MIAMI BEACH FLORIDA MASTER TERM CONTRACT NO. 973-000-14-02
PHASE I-A & I-B – FUNDING PROGRAM ASSESSMENT

| Date | Property | Parties | Observed Lien Amount | Description |
|-----------|----------|---|----------------------|--|
| 9/7/2012 | Neptune | Grand Plumbing and Neptune | \$ 2,500 | Grand Plumbing signs on 9/7/2012 conditional partial Release of Lien upon progress payment for the amount \$2,500 made with check #1382. |
| 8/30/2012 | Neptune | A-YAN Electrical and Neptune | \$ 2,500 | A-YAN Electrical signs partial Release of Lien. The payment was made on 9/5/2012 with check #1379. |
| 3/20/2011 | Neptune | Miami Beach Community Contractors LLC and Neptune | \$ 27,990 | MBCC LLC signs partial Release of Lien on 3/20/2011 against Neptune Apartment because of the payment received of \$27,990.21. |
| 11/8/2011 | Neptune | Cardel Fire Protection and Neptune | \$ 3,375 | Satisfaction of Lien signed contractor and State of Florida official. Payment made with check #2854. |
| 4/24/2012 | Neptune | Miami Beach Community Contractors and MBCDC Neptune | \$ 10 | Final release of Lien signed and notarized |
| 4/25/2012 | Neptune | Grand Plumbing and Neptune | \$ 3,813 | Waiver and Release of Lien upon final payment signed and notarized |
| 5/5/2012 | Neptune | Miami Beach Community Contractors and MBCDC Neptune | \$ 34,830 | Partial Release of Lien signed and notarized |
| 7/1/2010 | Neptune | Grand Plumbing and MBCDC: Neptune | \$ 10,155 | Conditional partial Release of Lien signed and notarized and payment of \$9,140 was made on 7/7/2010 with check #2856. |
| 6/30/2010 | Neptune | Chanin Mechanical and MBCDC Neptune | \$ 3,150 | Waiver and partial Release of Lien upon final payment signed and notarized (Check #3150) |
| 6/17/2010 | Neptune | A-YAN Electrical and Neptune | \$ 9,500 | Partial Release of Lien signed and notarized and payment was made with check #2852 for \$8550. |
| | | Total | \$ 110,022.92 | |

Appendix E: Key Individuals

| Name | Agency | Title |
|-----------------|---------------------|---|
| Jorge Gonzalez | COMB | Executive Director/ City Manager |
| Maria Ruiz | COMB | Director, Office of Housing and Community Services |
| Jimmy Morales | COMB | City Manager |
| Anna Parekh | COMB | Director |
| Hilda Fernandez | COMB | Assistant City Manager |
| Kent Bonde | COMB | Redevelopment Coordinator |
| Richard Bowman | COMB | Housing Specialist |
| Brian Gillis | COMB | Community Development Coordinator |
| Rocio Soto | COMB | Community Development Specialist |
| Lynda Charles | Contractor for COMB | Contractor |
| Robetro Datorre | MBCDC | President: MBCDC |
| Manuel Forero | MBCDC | Project Director; President MBCDC |
| Larry Green | MBCDC | MIS Manager |
| Don Tomlin | MBCDC | Chief Operating Officer |
| Karl Kennedy | MBCDC | Vice President |
| Denis Russ | MBCDC | Registered Agent, MBCDC: The Allen LLC |
| Luis Gonzalez | n/a | VP - Commercial Lending, International Finance Bank |
| Gerald Schwartz | n/a | Esq., Law Office of Gerald K. Schwartz |
| Annie Diego | n/a | Paralegal, Law Office of Gerald K. Schwartz |



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**Miami Beach Community Development Corporation
Under New Management
Plan for FY 15**

MBCDC has undergone major changes in the past year. The organization is committed to moving forward with excellence and integrity. Below is a summary of the actions which have been, or will be undertaken to address concerns which have been raised regarding the operation of MBCDC.

New Leadership Team

After an extensive search, a new Executive Director was selected. Beatriz Cuenca-Barberio was hired in mid-August. She brought her own team of professionals to replace existing staff in key positions. In addition, after many years of service to MBCDC, Jack Johnson resigned and the Board elected Cornell Crews as Chairman.

| Newly Elected/Hired | Replaces | Title | Expertise and Background |
|----------------------------|-----------------|--------------------|---|
| Cornell Crews, Jr. | Jack Johnson | Board Chair | Cornell is the Fund Development/Community Relations Director of the Partnership for Self-Employment. He served for over 20 years in the U.S. Army, focusing on Special Operations. He has been on the Board of MBCDC as a member and as Finance Chair since 2011. |
| Beatriz Cuenca-Barberio | Roberto Datorre | Executive Director | Beatriz has over 20 years of experience working with non-profits and in the public sector. She is a Miami Beach native and graduate of Duke University and the University of Miami School of Law. Her last position was as Program Director of the Miami-Dade County Section 8 Program. |
| Donna Gunther | Karl Kennedy | Deputy Director | Donna is a seasoned executive and has worked in the housing industry |

| | | | |
|----------------|-------------|---------------------------|---|
| | | | for over 30 years. She has expertise in subsidized housing programs, property management, training, project management and organizational leadership. She has worked in executive and management positions in New York, Chicago, and Miami. |
| Leticia Valle | Jaime Gomez | Controller | Leticia has over 15 years of experience and has held several academic and leadership positions in the fields of Finance and Accounting. Leticia was the head of Finance at Miami-Dade County's Section 8 program where she was responsible for overseeing monthly disbursements of over \$11 million. |
| Georgina Pardo | | Organizational Consultant | Georgina is the former CFO of the Everglades Hotel and Camillus House. She has over 30 years of experience in business, audit and finance. She's been contracted to review internal controls and SOPs throughout the organization, assist the finance department in preparing for the FY 14 audit and provide training. |

Additional Staffing Changes

- 2 new Finance Clerks—one for account payables and one for rent collection and general admin duties

- Property management staff has been replaced with 2 new managers
- Housing Counseling and Hardest Hit Programs will be handled by Bianga Fonseca and Ana Del Pozo.
 - Bianga has been with MBCDC for over 10 years. She has been trained as a Certified Housing Counselor and is the main contact for that program. She will also work alongside Ana del Pozo on the Hardest Hit and Mortgage Loan Reinstatement Programs
- Ana del Pozo has been working on the Hardest Hit program since 2011.

Actions Undertaken by Board since Fall, 2013

- Forced resignation of Roberto Datorre
- Significantly reduced staffing to contain expenditures
- Achieved the clearance of most prior audit findings in the FY'13 annual audit, and demonstrated progress in addressing the remaining 3 findings.
- Paid down a substantial portion of outstanding debt.
- Hired a new Executive Director

Organizational and Program Improvements

The program improvements listed below are planned for FY 15 as part of our effort to assess, correct or improve all aspects of the organization.

Organizational Culture

True change in an organization requires a close review of its culture and establishing values and performance standards which will be the foundation of a new culture committed to excellence. MBCDC is creating a culture which is being built on:

- Professionalism—implementing solid business practices, performance standards and accountability
- Service to the community—serving our clients with respect and tolerance, striving for excellent customer service.
- Collaboration—MBCDC staff works as a team
- Community—MBCDC intends to continue to be a significant contributor to the Miami Beach community, create awareness of the issues affecting the low income community and advocate for affordable housing and services for the area.

Property Management and Maintenance

- Upgrading service delivery, monitoring and tracking through implementation of property management software
- Reviewed current waitlist practices
- Developed new SOP for waitlist if needed in order to comply with various funding sources
- Train staff on waitlist management eligibility and admission
- Review all tenant files (400+) to ensure compliance with program requirements
- Bringing noncompliant files into compliance

- Ensuing effective and timely reporting with all of our funders
- Ensuring accurate recertifications and rent calculations
- Implement a quality control program

Housing Counseling and Hardest Hit

- Designated new staff to administer programs
- Provided housing counseling training to staff
- Serving Hardest Hit clients already in our pipeline

Fiscal Stewardship and HR

- Preparing financial statements for 19 entities so that the FY 14 audit can be completed on time
- Developing and implementing sound financial policies which address: internal controls and segregation of duties; timely posting of financial activities and reconciliation of accounts; record retention; cash management and all other aspects of financial operations.
- Producing monthly financial statements to monitor the financial health of the organization.
- Regular reporting and accountability to the Board of Directors
- Created job descriptions and recruitment protocol which ensured hiring of qualified personnel with necessary work ethics and values.
- Reviewed and updated personnel policies.
- In the process of reviewing all vendor contracts to maximize value and savings.